



Intuition and Good Intentions Are Not Enough to Help Disadvantaged Workers

by Mark J. Perry, Ph.D.

Summary

Raising the minimum wage may seem to be a good way to help disadvantaged workers, but history and economics show that minimum wage laws actually make employment harder to find—and keep—for the least skilled job seekers.

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One reason that economic education is necessary is that many conclusions that result from careful economic analysis run counter to our natural intuition. That is, relying on our intuition to analyze economic issues often results in recommendations that are exactly the opposite of the best solution for society.

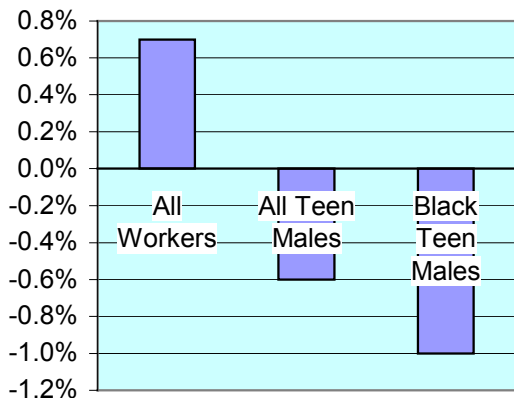
Some people, for example, think intuitively that banning imports would be good for the economy because the result would be more business for domestic producers. Economists have demonstrated, however, that what's good for a few producers can be bad for everyone else. Economic research shows us conclusively that trade restrictions on imports always do far more harm to the economy—and to our basic freedom to buy and sell—than they do good.

An even better example is one that President Clinton mentioned in his State of the Union speech and is now being talked about in the Michigan Legislature—raising the minimum wage. Representative Michael Hanley (D-Saginaw) is proposing that Michigan raise its minimum to \$6.15 per hour by January 2000 from the current \$5.15.

Minimum wage laws demonstrate perfectly how we are deceived by our natural instincts. Our intuition, along with our sense of compassion, tells us that increasing the minimum wage will help unskilled workers. In this case, we would be partially correct. Raising the minimum wage would help *some* unskilled workers. It would help only those workers who are fortunate enough to find or keep a job in a labor market containing a surplus of unskilled workers.

From history and economics, we know that increasing the minimum wage leads to three certain outcomes: 1) employers will reduce their demand for inexperienced, unskilled workers; 2) unemployment will therefore increase for those workers; and 3) discrimination against minorities will rise. No amount of wishful thinking, compassion, or intuition by lawmakers will change the basic economic laws that result in these certain outcomes, just like no amount of wishful thinking by politicians can change the law of gravity.

Change in Employment Rate after 1996 Minimum Wage Hike



Measured from 11 months before and after 10/96.
Source: Investor's Business Daily, 1/30/98

We can increase wages for unskilled workers, but the minimum wage law cannot force Michigan employers to hire workers at those higher wages. We can hope that employers ignore the laws of economics, but experience tells us that they won't. At the artificially high wage, fewer workers will be hired by the businesses that provide entry-level jobs—even in a strong economy where employment is increasing for more skilled workers.

When government artificially sets a price higher than the true market price, it guarantees that there will be a surplus. That is exactly the inevitable result of an artificially high minimum wage—a surplus of young (unemployed) workers, which is reflected already in the current 16.2 percent unemployment rate for teenagers in the U. S. And that is why the minimum wage law is bad: It hurts the very workers that it is designed to help—the young, unskilled workers who need work experience.

In addition, the excess supply of unskilled workers resulting from the minimum wage law means that employers now have a surplus of applicants for each opening. In that environment, employers find it much easier to discriminate against minorities.

Research shows that minimum wage laws result in fewer job opportunities for teenagers as a group, but black teenagers are especially hurt by the minimum wage. Between 1949 and 1955 the unemployment rate for black teenagers (13 percent) was about the same as for white teenagers (12 percent). As Congress increased the federal minimum wage over the years, black teenage unemployment crept up to its current level of over 28 percent (35.6 percent for black teenage males). On the other hand, white teenage unemployment has remained constant over the years at between 12 and 14 percent. And during periods when the minimum wage stayed constant (1981 to 1990 for example), black teenage unemployment fell as inflation made the real cost of the government-mandated wage easier for job providers to afford.

The results of minimum wage laws defy our intuition. We want to help workers at the bottom by raising wages, but the minimum wage law, like restricting imports, always ends up doing more harm than good. As counterintuitive as it may seem, the minimum wage harms the very workers whom we want to help—unskilled, inexperienced teenage workers and disadvantaged minorities.

Unskilled workers in Michigan don't need our intuition and compassionate wishes. They need jobs so that they can gain valuable work skills. To best help unskilled workers find jobs in Michigan, we need to do the counterintuitive thing. We need to repeal the minimum wage, or at least refrain from raising it.

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